

TAPR 99-

MEMORANDUM

DATE: March 10, 1999

TO: Ingi Lotfi, COTR, EG/SP

FROM: James T. Riordan, Chief of Party

REF: (A) Technical Assistance to Support the Reform Activities of the Government of Egypt and Provide Management Activities (TAPR) Subcontract Number 263-Q-00-97-00104-00
(B) Task Order 5 Task 2: Technical Assistance to Estimate the Economic Impact of the Luxor Incident.

SUBJECT: Completion Report. Task Order 5 (TO #5) Task 2: Technical Assistance to Estimate the Economic Impact of the Luxor Incident.

In accordance with the reporting requirements set forth in TAPR's subcontract, section F.7 :

"The Contractor shall prepare a completion report which summarizes the accomplishments of the assignment, methods of work used, and recommendations regarding unfinished and/or program continuation. The completion report shall also contain an index of all reports and information products produced by the subcontract ."

The following completion report is organized in 5 sections:

- I. Task Objectives
- II. Summary of Accomplishments of the Assignment
- III. Methods of Work Used
- IV. Recommendations Regarding Unfinished and/or Program Continuation
- V. Contents of the Study Report

I. Task Objectives

The objective of Task Order 5, Task No. 2 is to estimate the economic impact of the Luxor incident.

The study was carried out by a four- person team

Bradley Perry, Macro-economist, WEFA

Adam Sack, Macro-economist, WEFA

Dina El Shafei, Economist, TAPR

Nancy Odeh, Data Specialist, WEFA

The activity started November 20, 1998 and was completed February 1999.

II. Summary of Accomplishments of the Assignment

- Analyzed economic impact of the Luxor incident based on available data as of February 1999. Analysis was done on a monthly and an annual basis.
- Prepared econometric models to show losses both in terms of visitor arrivals and tourism spending.
- Reviewed historical impacts of previous terrorist acts.
- Prepared an input-output table to calculate the indirect impacts of the decline in direct spending.

It is estimated that the initial economic impact of the Luxor incident will be \$1.87 billion over the period 1997-2001. It is pointed out that immediately following the incident tourism plummeted and its return was in serious question. Data, however, reflect that losses do not seem as damaging as originally anticipated. Egypt's recovery seems to be quicker than anyone anticipated. A number of factors have mitigated the severity of the economic impact.

- The business travel is generally quarantined from the risk assumed by tourist visitors. Thus, the Luxor incident did not dissuade this category of traveler from visiting Egypt.
- Arab visitors filled in the gap to some degree left by tourists from Europe, the Americas and Asia. In a show of regional solidarity 20 Arab countries helped to promote tourism to Egypt. 1998 was declared the "Year of Arab Tourism to Egypt". Egypt Visa canceled fees were and cut land travel fares.
- Review of historical response of tourists to similar events conclude that tourists do not allow fear from past events to dictate destination preference for long. The impact of the Luxor incident showed signs of softening within seven months.
- Egypt has an incredibly resilient tourism product. Unique natural and historical attractions seem to supercede potential danger.

III. Methods of Work Used

This study was carried out in Egypt and the US. An Egyptian economist gathered all required data and forwarded the material to two US economists in the US. All analysis and models were prepared in the US by two economists from WEFA.

- A historical context was set for estimating and interpreting models.
- A monthly frequency model was used to estimate the impact on visitor arrivals over available history in 1997 and 1998.
- An annual frequency model was used to estimate the economic impact on visitor arrivals and tourism receipts. In addition, losses to fare receipts were calculated.
- The results were used in conjunction with the Egyptian input-output table in order to break out the *Direct and Indirect Impacts by Industry*.
- A macro-economic model for Egypt estimates multipliers to be applied to the initial demand impact in order to derive the *Total Economic Impact* of the Luxor incident.
- Conclusions and written analysis were based on the above findings, interviews and other research.

IV. Recommendations Regarding Unfinished Work and/or Program Continuation

N.A.

V. Index of Reports and Information Products Produced

The study report includes the following sections:

- Background
- Overview of Approach
- Historical Review
- Econometric Analysis of the Visitor Arrival Data
 - Monthly Approach
 - Annual Approach
- Treatment of Fare Receipts
- Direct Versus Indirect Impact
- Induced Impact
- Conclusions and Analysis